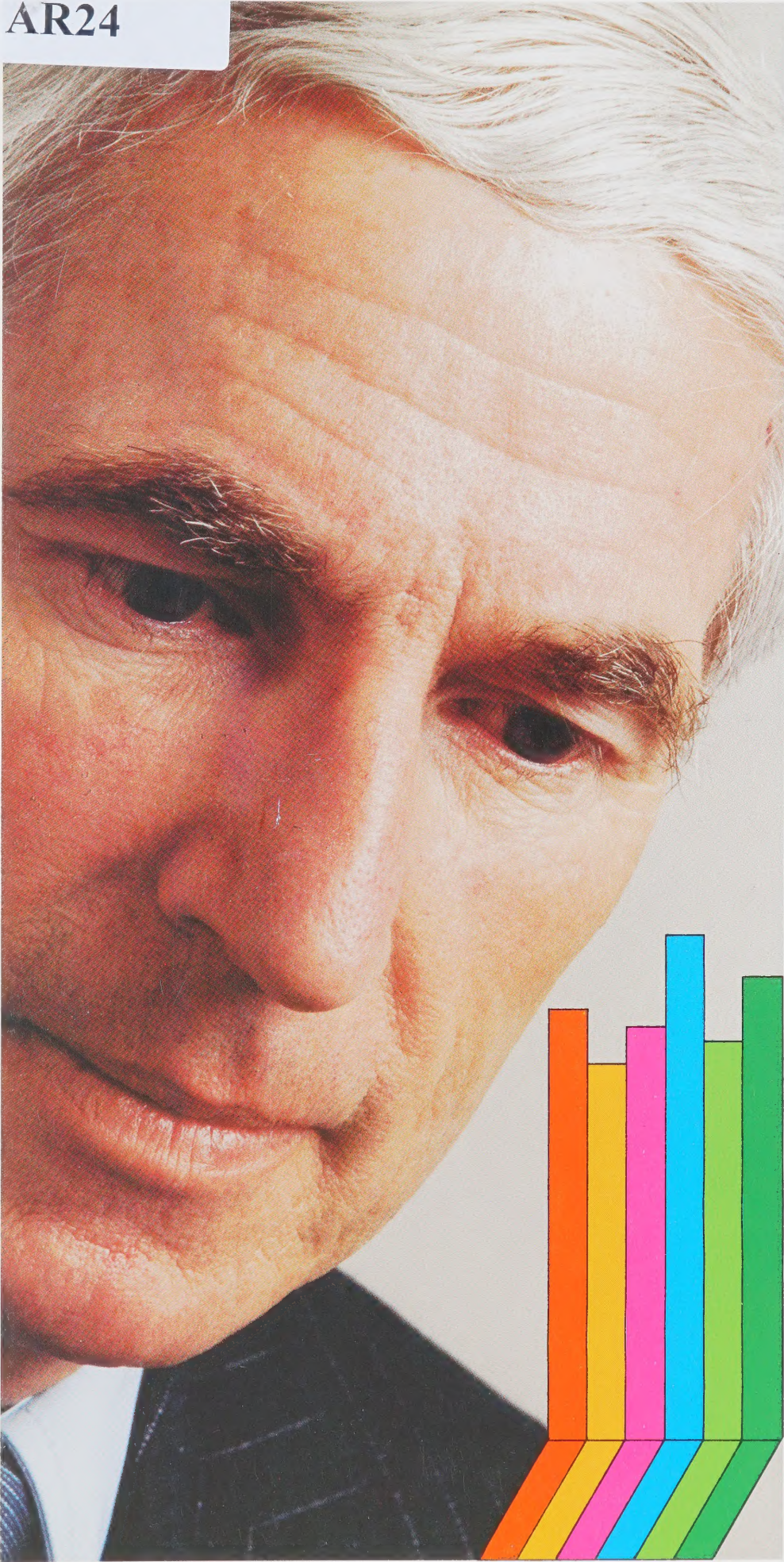






Directors' report to shareholders

Consolidated earnings before extraordinary items, for 1977, amounted to \$1,246,000 or 51 cents per common share, as compared with \$1,416,000 or 68 cents per share, in 1976. \$1,199,000 of the 1977 earnings, or 49 cents per share, represent a gain on the sale of marketable securities. There was no such gain in the previous year.

Extraordinary items amounted to a net loss of \$700,000, or 32 cents per common share. They include an estimated loss of \$1,076,000 on the disposal of the Chantecler Hotel and resort operation in Sainte-Adèle, Québec, as well as the wind-up of the Bégin, Charland & Valiquette appraisal company. Total earnings are thus \$546,000 or 19 cents per common share, compared to \$1,283,000 or 61 cents per share, for the previous year.

Our results were greatly affected by the performance of our two largest groups, Furniture and Metals, where the negative impact of the poor economic climate in Canada proved serious. In addition, unusually bad weather and snow conditions through the 1976-1977 ski season caused a substantial reduction in the earnings of our Western Canada ski operations.

In contrast, the 1977-78 ski season was off to a good start and we may have a record year in earnings from both Sunshine Village and Garibaldi ski centres. We believe also that the incentive measures recently introduced by the Federal government and the discount position of the Canadian dollar should help the market conditions in the furniture and metals industries.

1977 earnings include those of the P. Lawson Travel group acquired on December 31st 1976. The group contributed \$796,000 or 14.7% of the total operating profit.

During the year 1977, the Corporation acquired C.K. Steel & Machinery Ltd., a Calgary-based steel and heat exchanger fabricating company, and McGregor Travel Co. Ltd., a Montréal retail travel agency. Earnings shown here, for both operations, accrue only for the period beginning at the acquisition date in the second half of 1977.

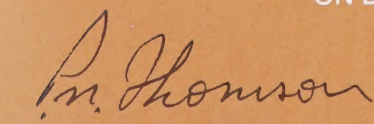
In 1977, an amount of \$2,939,000 was spent on the acquisition of fixed assets. Of this sum, \$2,042,000 went towards replacement or improvement of present facilities. Expansion programmes took up the \$897,000 balance, with the manufacturing sector accounting for \$719,000.

On December 31st 1977, we completed a major corporate reorganization involving the Corporation and a majority of its subsidiaries. This move reduces the number of separate legal entities and simplifies the corporate structure. It also makes it possible to utilize, for tax purposes in future years, losses incurred in prior years by certain subsidiaries which have been amalgamated. As a result of this amalgamation, 130,150 common shares (net of shares issued to minority shareholders) of the Corporation had to be repurchased. For the purpose of our financial statements on December 31st 1977, these shares have been treated as if they had been cancelled.

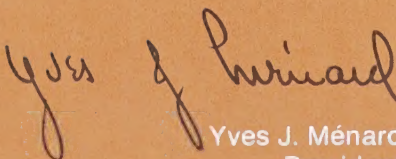
We are pleased to welcome to our Board, Mr. Jean-Pierre Maurer, President/Canadian Operations of the Metropolitan Life Insurance Company, and also to report the appointment of Mr. Yves J. Ménard as Chief Executive Officer of the Corporation.

The Directors especially wish to extend their appreciation to all employees for their loyalty and dedication during a very difficult economic period. Their cooperation has helped immeasurably. TIW is truly grateful.

ON BEHALF OF THE BOARD



P.N. Thomson
Chairman



Yves J. Ménard
President

March 23rd 1978 Ottawa

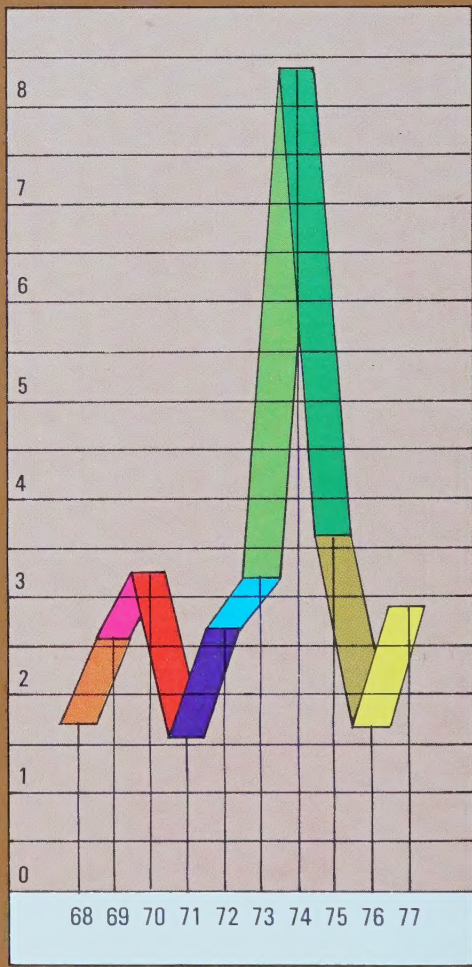
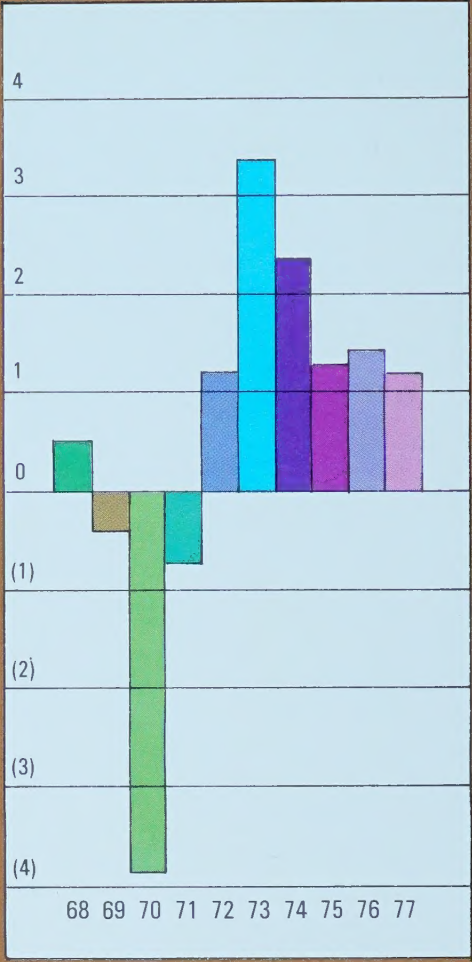
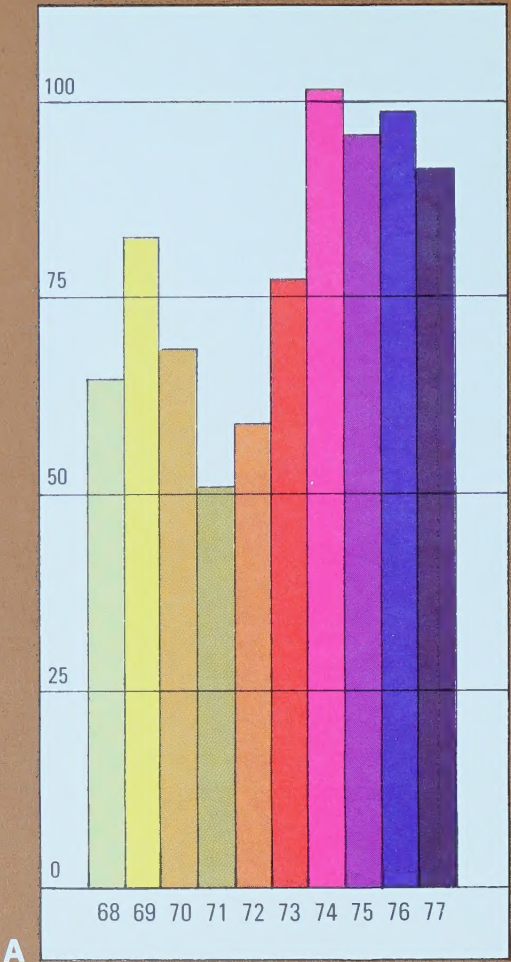
Earnings and financial review (graphs)

A: Gross revenues
(in millions of dollars)

B: Earnings (losses) before extraordinary items
(in millions of dollars)

C: Shareholders' equity
(in millions of dollars)

D: Investment in fixed assets
(in millions of dollars)



In the middle of things...
TIW's sectorial operations



TIW INDUSTRIES LTD. and Subsidiaries
(formerly Warnock Hersey International Limited)

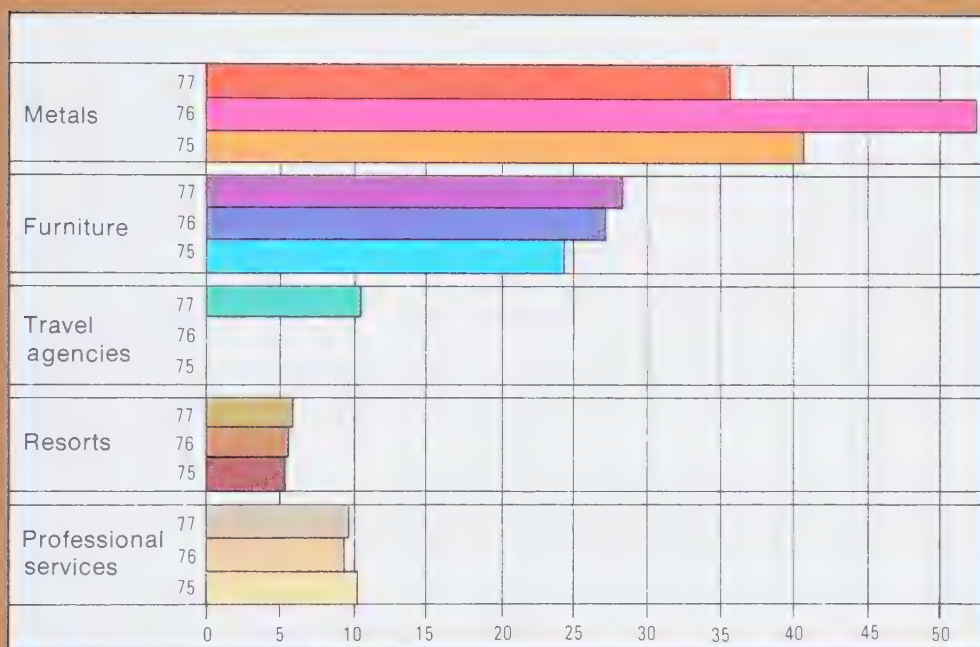
Financial review by segments (in thousands)

	Total Assets			Gross Revenues			Operating Profits		
	1977	1976	1975	1977	1976	1975	1977	1976	1975
Metals*	\$27,503	28,413	26,093	\$35,584	53,491	40,947	\$1,278	5,225	3,146
Furniture	20,340	19,522	19,149	28,303	27,323	24,189	2,204	2,984	2,701
Travel Agencies	7,878	8,298	—	10,458	—	—	796	—	—
Resorts	5,886	5,774	5,993	5,333	5,275	5,142	1,014	1,354	1,721
Professional Services	3,637	4,515	5,502	9,877	9,593	10,040	128	24	345
Operating	65,244	66,522	56,737	89,555	95,682	80,318	\$5,420	9,587	7,913
Discontinued operations	994	5,643	11,491	2,289	2,701	15,322			
Corporate & investments	3,441	2,850	3,637	269	275	326			
	<u>\$69,679</u>	<u>75,015</u>	<u>71,865</u>	<u>\$92,113</u>	<u>98,658</u>	<u>95,966</u>			

*This Group now includes all steel fabricating and metal powders operations.

Reconciliation of operating profits to earnings (in thousands)

	1977	1976	1975
Operating profits	\$5,420	9,587	7,913
Investment income not included above	269	275	276
	<u>5,689</u>	<u>9,862</u>	<u>8,189</u>
Less:			
Amortization of intangible	381	635	265
Net losses of discontinued operations	693	826	758
Corporate administration	1,490	918	963
Interest expenses	2,523	2,762	3,001
Income taxes	604	3,316	1,752
Minority interest	(42)	(11)	47
Gain on sale of marketable securities	(1,206)	—	—
Decrease (Increase) in equity of associated companies	—	—	15
Earnings before extraordinary items	<u>\$1,246</u>	<u>1,416</u>	<u>1,388</u>



The metals group. A commentary.

As a preamble, let's note that this sector now includes all TIW steel fabricating and metal powders operations. The Group's results for 1977 were not as buoyant as in the past few years, but not surprising when viewed against the background of a bleak market environment.

THE CANBRO and INTERNATIONAL BRONZE POWDERS DIVISION, with plants in Valleyfield, Québec, and Royston, England, is a major and well-respected world producer and distributor of non-ferrous metal powders and flakes. These products are used by the graphic arts, automotive, chemical, paint, plastics, commercial explosives, marine and powder metallurgy industries. A major expansion programme is currently under way in Valleyfield, scheduled for start-up by mid-1978, and a further expansion of the five-year-old U.K. facilities is now in the planning stage. Generally, 1977 sales volume was above expectations while 1978 and beyond show great promise.

THE STEEL PLATEWORK DIVISION, located in Toronto, specializes in the design, fabrication and erection of heavy steel plate products for the petroleum, chemical, power utility, mining, and iron and steel industries.

Demand for such products in 1977 across Canada was at its lowest level in a decade. Still, completed contract revenues for 1977 were as planned with corresponding operating margins. We anticipate little change in 1978.

C.K. STEEL & MACHINERY LTD., associated with the Steel Platework Division, is located in Calgary, Alberta. This modest-sized company was acquired in October 1977 and gives us an interesting facility in that important market. To date, results are as planned.

CENTRAL BRIDGE COMPANY DIVISION, with a plant in Trenton, Ontario, is a specialty fabricator of light steel plate and structural steel. Demand for its traditional products was at a record low level in 1977; consequently, the disappointing results were not unexpected.

However, Central's involvement in the world-wide communications satellite tracking antennae stations is significant and of growing importance in future years. As a result, Central Bridge should contribute positively to the Metals Group in 1978, despite a depressed demand for its traditional products.

TIW SYSTEMS LIMITED of Toronto, and its subsidiary TIW SYSTEMS INC. of Palo Alto, California, have barely completed their first full year of operation. Formed in mid-1976 to design and market satellite tracking systems (fabrication being contracted to Central Bridge), these operations enjoyed an auspicious 1977. Contracts approximating 8 million dollars were booked for projects around the world. Most of this work will be completed in 1978 with earnings accruing to the group during the year. Outlook for beyond is encouraging.

THE C.E. MACPHERSON COMPANY DIVISION in Kingston, Ontario, is a manufacturer of pressure vessel heads and other closures for a variety of industries. 1977 was a good year for this division, but with no change expected for 1978. Long-term outlook appears bright.

WIMCO STEEL SALES CO. DIVISION in Oakville, Ontario, carries on a steel warehousing and processing business serving customers from the Maritimes to Alberta, primarily manufacturers of finished and semi-finished steel products.

Demand has been severely depressed for the past two years with consequent pressure on profit margins. A cost reduction programme introduced during 1977, coupled with aggressive marketing and sales efforts, have laid the basis for an expected upswing in 1978.

**This Group comprises
the following divisions
or companies:**

- Steel Platework
- C.E. Macpherson
- Les Constructeurs d'acier TIW
- TIW Systems/Canada and USA
- Central Bridge
- Wimco Steel Sales
- C.K. Steel & Machinery
- International Bronze Powders
- Canbro/Canada and U.K.



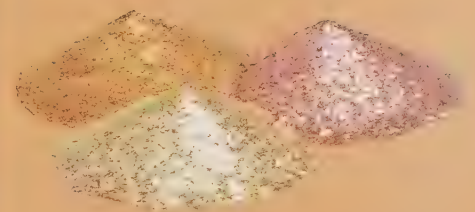
WALTER MORRIS

WALTER MORRIS



Top: 200-ton press for elliptical "dishing"/Steel Platework Division, Toronto

Bottom: Atomized molten metal jetted into receiving chamber/Canbro Division, Valleyfield



The furniture group. A commentary.

Despite the valiant efforts of our sales people, the five RADISSON manufacturing divisions have not succeeded in meeting the forecasted sales for 1977. Three factors explain this.

1. The uncertain Canadian economy.
2. USA furniture imported in growing quantities. These imports rose annually by 39.5% from 1971 through 1977, while the over-all annual demand increased only by 17.8% during the same period.
3. Mounting fabrication costs, coupled with diminishing profit margins. At the same time, the North and South Carolina furniture industry paid salaries (including marginal benefits) which were 37% lower than equivalent pay in Canada. Moreover, USA transportation costs are also less than ours.

The negative impact of such imports has proven quite serious on our Princeville Division's sales to Western Canada. With ensuing excess inventories and mounting accounts receivable; strong measures are being taken to counter both situations. Our Group has also suffered other losses through certain important retailers going bankrupt.

Large sums have been invested, during 1977, in the maintenance of equipment and plants. For instance, at Sainte-Thérèse in Québec, we have expanded our Thibault Division in order to meet increasing demand for its goods.

As to the specialized activities at our BOURASSA Division, they were also influenced by the general market conditions but, even more so, by the either negative or positive impact that design can exercise upon the various aspects of lathe-work.

Consequently, the Bourassa plant suffered a slow start in 1977 but business picked up quite well in the closing months, with excellent earnings accruing.

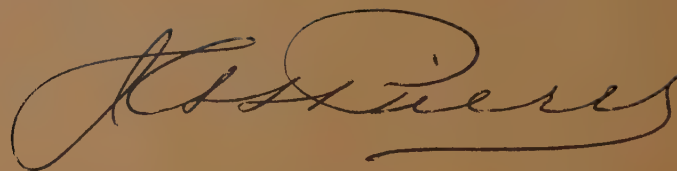
All told, the RADISSON Group made out rather well despite a difficult year. To wit, our performance exceeded that of the industry as a whole. We have to thank for this — first and foremost — our clients who have handsomely granted us their patronage through the years, notably in 1977. We trust that such confidence rests soundly on the service and warranty policy which all Radisson units tender to their respective clienteles. But let us not forget that our total personnel's dedication and proficiency explain much of our reputation. I would therefore be remiss in not thanking each and every one of our employees.

1978 should not prove to be too easy a year. However, we remain determined to make every effort in order to ensure the profit margins to which our shareholders are entitled.

12

Radisson Furniture comprises the following divisions:

- Henderson
- Princeville
- Thibault
- Marius Ouellet
- Royal Chesterfield
- Industries Bourassa



ALBERT SAINT-PIERRE



Top: Quality control of high-end
chairs of drawers / Radisson's
Princeton Division, Princeton
Bottom: Assembling chairs and
stools / Radisson's Henderson
Division, Saint-Lambert



The professional services group. A commentary.

Despite generally indifferent economic conditions throughout the year, we were able to maintain a satisfactory volume of business. Much of this is owed to the excellent reputation of Warnock Hersey Professional Services Ltd. in a wide range of technical fields. No less important is the ability of one office to make its particular expertise available to any other on short notice, thus maintaining our position as the largest and most experienced organization of its kind in Canada.

The Bégin, Charland & Valiquette appraisal division was closed last fall and consolidated into the Montréal office of the Warnock Hersey Appraisal Company which offers services across Canada. In addition, our appraisal division, Cunningham & Rivard, has offices in key centres in British Columbia.

The fire testing division is adding a new horizontal testing tunnel to its vertical facilities in Vancouver. When completed in the spring of 1978, it will enable us to offer a complete fire testing service in North America, especially now that the vertical facility in Antioch, California has already allowed a significant penetration into the United States market.

Cargo services have expanded and are now available either directly or through agents in major ports across the world. A marine inspection service has also been added to supplement the cargo inspection / sampling and the chemistry laboratory services.

Our Kleinfeldt Group once again made a substantial contribution by expanding its urban engineering services, particularly throughout Ontario.

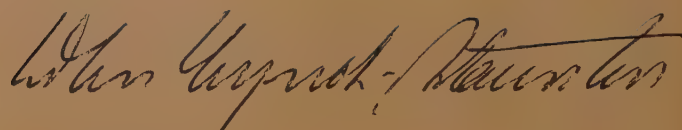
The material testing unit continued to participate in major energy projects, as well as being involved in numerous construction and maintenance undertakings in Canada. The flexibility of this division, both geographically and in terms of services available, allows it to bid on contracts of any size anywhere in the country. For instance, our coal laboratory in Calgary gives us a significant participation in the growth of the coal industry in Western Canada.

The death of Mr. Michael Rowe in February, 1978 saddened the entire Company. Mr. Rowe joined the Warnock Hersey organization in 1955, and in more recent years served firstly as President of WHPSL, then as Chairman of the Board. His many contributions are a legacy which will be long remembered and appreciated.

I wish to express to all employees my appreciation for their devotion in an environment which has seldom been more competitive. Their continued loyalty augurs well for the years ahead.

This Group comprises the following divisions or companies:

- Warnock Hersey Professional Services
- Cunningham & Rivard Appraisals
- Contrôle Technique Appliqué
- The Kleinfeldt Group



JOHN LYNCH-STAUTON



Curtain wall set-up for a
dynamic water infiltration
test. Wansco's Heavy
Professional Services Ltd.
on location in Ottawa.



The travel agency group. A commentary.

1977 was a significant, busy and consolidating year for P. Lawson Travel Ltd. and its associated companies. We now have with us several new affiliates. Burke's World Wide Travel Ltd. with its 14 offices in British Columbia, and Burritt Travel Ltd. with its 11 offices in Saskatchewan and Alberta, had their first operating year as part of our group. They both produced a profit and we feel their future to be most promising.

In August of 1977, we purchased the well-known Montréal travel company, McGregor Travel Co. Ltd. This also seems a splendid acquisition and we look forward to its earning contribution in 1978. During the year, Lawson opened new offices in Richmond, B.C., Winnipeg, Manitoba (Rupert's Island Square), Vancouver, B.C. (Vancouver Civic Centre), Toronto, Ontario (in the Commerce Court West Concourse and the new Royal Bank Tower Building). P. Lawson Travel and associated companies now have 64 branch locations all across Canada from Halifax to Victoria, and in 1977 we were proud that our total sales volume exceeded \$100 million for the first time ever.

Let us now break down these 1977 results. Volume was outstanding for the first half of the year, but decreased drastically from July through October. However, November and December business having shown a slight increase over 1976, indications are that 1978 will prove up to expectations.

It can be said that travelling embodies the foremost desire of people today, and Canadians spend more per capita on travel than almost any other nation. A greater number than ever before are taking winter holidays, responding to attractive transportation and resort rates. On the other hand, such a trend can cause concern. Travel expenditures to other countries have not been matched by incoming tourists, resulting in a record travel deficit in Canada's balance of trade in 1977. To remedy this situation in 1978, we will support actively all "Travel in Canada" initiatives of the Federal and Provincial governments, through our investigating and offering attractive Canadian travel programmes.

Productivity per employee is important to the future of the retail travel field, and in 1978 Lawson and its affiliates will cooperate with our accounting service in the development of an integrated and computerized reservation and accounting system, designed to significantly increase our productivity. Our Managers and Travel Consultants will also continue to travel throughout the world investigating new areas, new hotels, new resorts, in order to up-date pertinent information for our customers and thereby live up to our slogan: "We've been there".

1977 was our first year as a member of TIW's family of companies. We found the association beneficial and it was enthusiastically received by all of us.

This Group comprises the following divisions or companies:

- P. Lawson Travel
- Burritt Travel
- McGregor Travel
- Bel-Air Travel
- Burke's World Wide Travel



JOHN A. POWELL

Top right View of the earth
from the moon



The resorts group. A commentary.

Compared to 1976, the combined earnings of the Western Ski Division for 1977 show a decline due principally to two factors. The most significant was the unusual weather conditions during the 1976-1977 season, which produced below normal snow-falls throughout most of western North America. Also affecting revenues was an agreement with the Anti-Inflation Board that lift ticket daily prices would not be increased during 1977, in spite of continually escalating costs. Luckily, the 1977-1978 ski season began early in November with excellent snow conditions, permitting markedly improved results during the latter part of the year.

To be more specific, the effect of the weather was quite different at each of the two areas comprising the Western Ski Division. At Whistler Mountain, on the coast, the impact was catastrophic. In mid-January, snow conditions had continued to deteriorate to the point where ski safety was in jeopardy; as a result, operations had to be discontinued for a period in excess of three weeks. Even when the area was reopened, snow was still sparse except at higher elevations, and a great deal of time and effort were required to keep the area going.

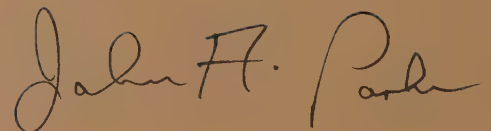
Even at Sunshine Village, snow conditions were substantially poorer than in a normal year, though better than in most other regions of western North America. Unusually large crowds were thus attracted throughout much of the season. Nevertheless, because of eventual deterioration of snow conditions, Sunshine Village ceased operations several weeks earlier than normal.

At both of our locations, the loyalty and dedication of our management and staff proved exceptional, despite very trying conditions. The Western Ski Division was most fortunate to enjoy the services of such rank and file during a decidedly difficult year.

All in all, 1977 represents in many respects a year of real accomplishment. At Whistler Mountain, a right of way was obtained and cleared, permitting the installation of tower footings for the construction of a new chair lift. This lift should be completed during the summer of 1978, and will enhance the skiing experience at the top of the mountain.

Developments at Sunshine Village relate to ambitious plans for the area. In 1973 we joined Parks Canada in a shared contract to have independent consultants develop an over-all programme for the area, its main objective being to determine the acceptable limits for long-range developments as well as those improvements required to meet the needs of current customers. During 1977, the Minister of Indian and Northern Affairs gave approval in principle to the major portions of this plan as submitted by the consultants. When completed over several years, this development would improve accessibility to the area, add several ski lifts, and thereby increase the comfortable capacity of the operation from the present 2,500 up to 6,000 skiers per day. It is hoped that construction on the first phases, as detailed in this plan, can begin in 1978.

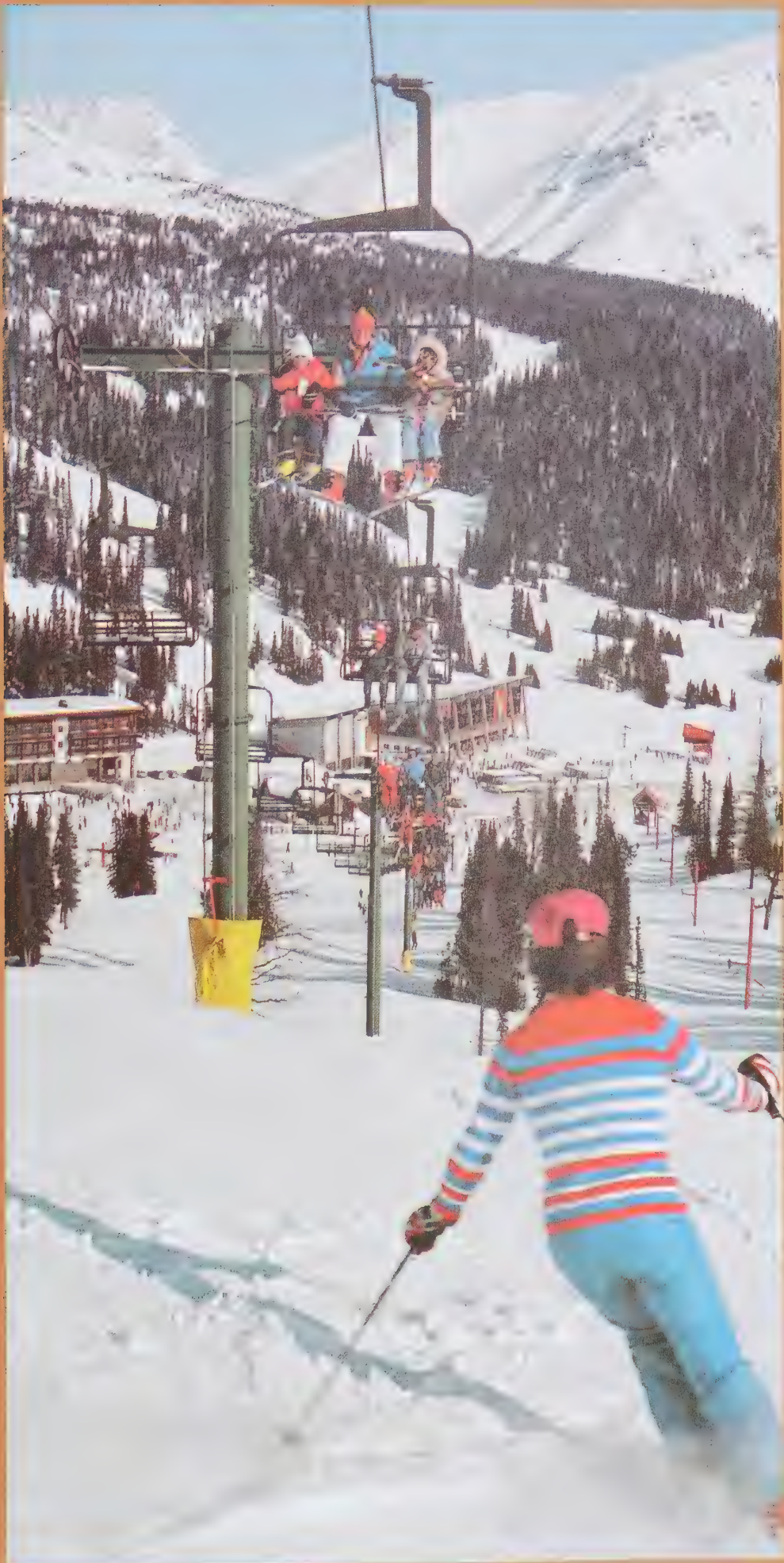
At Whistler as well as at Sunshine Village, exceptionally fine snow conditions materialized early in the current season. We thus have good reason to be optimistic concerning total 1978 results.



The Western Ski Division
comprises the following
units:

- Sunshine Village, Alberta
- Garibaldi Lifts, B.C.

JOHN A. PARKE



Principal operating companies or divisions

Metals group

Steel Platework Division
629 Eastern Avenue
Toronto, Ontario M4M 1E4
(416) 461-8111

C.E. Macpherson Company
468 Rideau Street
Kingston, Ontario K7L 4W2
(613) 549-2001

Les Constructeurs d'Acier TIW
Limitée
315—750 Laurentian Blvd.
Ville St-Laurent, Qué. H4M 2M4
(514) 747-9353

TIW Systems Inc.
Suite 103
1900 Embarcadero Road
Palo Alto, Calif. 94303
(415) 321-7051

Central Bridge Company
300 West Street
Trenton, Ontario K8V 5R8
(613) 392-3567

Wimco Steel Sales Co.
1218 South Service Road
Oakville, Ontario L6L 5J9
(416) 827-9855

TIW Systems Limited
629 Eastern Avenue
Toronto, Ontario M4M 1E4
(416) 461-8111

C.K. Steel & Machinery Ltd.
4619 — 6A Street N.E.
Calgary, Alberta T2E 4B4
(403) 276-7971

International Bronze Powders
Company
29 East Park Street
Valleyfield, Qué. J6S 4V9
(514) 373-0233
Montréal direct: 866-8514

Canbro (U.K.) Limited
Willowside Industrial Estate
York Way, Royston, Herts
England SG8 5HJ
Tel: (0763) 41244

Canbro Division
29 East Park Street
Valleyfield, Qué. J6S 4V9
(514) 373-0233
Montréal direct: 866-8514

Furniture group

RADISSON FURNITURE
LIMITED

Henderson Division
380 Sir Wilfrid Laurier Blvd.
Saint-Lambert, Qué. J4R 2L2
(514) 671-5506

Princeville Division
55 des Érables Street
Princeville, Qué. G0P 1E0
(819) 364-5506

Thibault Division
6 Saint-Alphonse Street
Sainte-Thérèse, Qué. J7E 1G3
(514) 430-2710

Marius Ouellet Division
Disraëll, Qué. G0N 1E0
(418) 449-2530

Royal Chesterfield Division
328 De Bigarré Street
Victoriaville, Qué. G6P 4Z2
(819) 752-9724

Industries Bourassa Division
Saint-Raymond, Qué. G0A 4G0
(418) 337-2233

Travel agency group

P. Lawson Travel Ltd.
1415—2 Carlton Street
Toronto, Ontario M5B 1K2
(416) 363-7581

Burritt Travel Ltd.
301—8th Avenue, S.W.,
Room 26
Calgary, Alberta T2P 1C5
(403) 265-7974

McGregor Travel
3 Place Ville-Marie
Montréal, Qué. H3B 3R2
(514) 871-8295

Bel-Air Travel Inc.
2155 Mountain Street
Montréal, Qué. H3G 2A1
(514) 844-8817

Burke's World Wide Travel Ltd.
251—409 Granville Street
Vancouver, B.C. V6C 1T4
(604) 682-4555

Resorts group

Sunshine Village Division
P.O. Box 1510
Banff, Alberta T0L 0C0
(403) 762-3383

Garibaldi Lifts Limited
837 West Hastings Street
Vancouver, B.C. V6C 1B6
(604) 684-4471

Professional services group

Warnock Hersey Professional
Services Ltd.
128 Elmslie Street
Ville LaSalle, Qué. H8R 1V8
(514) 366-3100

Cunningham & Rivard
Appraisals Division
1680 Lloyd Avenue
North Vancouver, B.C. V7P 2N6
(604) 985-8761

Contrôle Technique
Appliqué Ltée
P.O. Box 2
Ville LaSalle, Qué. H8R 3T7
(514) 365-3111

The Kleinfeldt Group Division
P.O. Box 608
7665 Hurontario Street
Brampton, Ontario L6V 2L6
(416) 451-3900

Others

Global Travel Computer
Services Ltd.
719—2 Carlton Street
Toronto, Ontario M5B 1J3
(416) 364-7321

Warnock Hersey Investment
Services Ltd.
150 Albert Street, 18th floor
Ottawa, Ontario K1P 5G2
(613) 238-1888

At the core of control...
TIW's global operation



TIW INDUSTRIES LTD. and Subsidiaries
(formerly Warnock Hersey International Limited)

Consolidated statement of earnings
for the year ended December 31, 1977 (in thousands)

	1977	1976
INCOME		
Gross revenue from operations	\$91,719	\$98,258
Income from investments	394	400
	<u>92,113</u>	<u>98,658</u>
EXPENSES		
Operating and administrative	86,310	88,438
Depreciation and amortization	2,290	2,102
Amortization of intangible	381	635
Interest on long-term debt	2,010	2,182
Other interest	513	580
Income taxes	604	3,316
Minority interest	(42)	(11)
Gain on sale of marketable securities	(1,199)	—
	<u>90,867</u>	<u>97,242</u>
EARNINGS BEFORE EXTRAORDINARY ITEMS	1,246	1,416
EXTRAORDINARY ITEMS	(700)	(133)
TOTAL EARNINGS AND EXTRAORDINARY ITEMS	\$ 546	\$ 1,283
EARNINGS PER COMMON SHARE		
Before extraordinary items	\$0.51	\$0.68
After extraordinary items	0.19	0.61

Consolidated statement of retained earnings
for the year ended December 31, 1977 (in thousands)

RETAINED EARNINGS, January 1	\$11,992	\$11,147
Earnings for the year	546	1,283
Gain on redemption of shares	78	63
Dividends paid — preferred shares	(134)	(125)
— common shares	(435)	(376)
RETAINED EARNINGS, December 31	\$12,047	\$11,992

Notes to the consolidated financial statements December 31, 1977

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A) Basis of consolidation:

The consolidated financial statements include the accounts of the Corporation and all of its subsidiaries.

The excess of the cost of acquiring a new business, over the underlying book value of net assets acquired, is allocated first to such of the acquired assets as may be undervalued in the accounts of the new business. Any excess is carried in the consolidated balance sheet as an intangible asset and amortized over a reasonable period of time depending on the nature and size of the operations of the acquired business.

During the year, the Corporation acquired all of the issued shares of C.K. Steel & Machinery Ltd. and of McGregor Travel Co. Ltd.

The following is a summary of these transactions:

Net tangible assets acquired at fair value assigned thereto:

	C.K. Steel	McGregor	Total
Assets	\$2,665,000	\$1,139,000	\$3,804,000
Liabilities	2,607,000	1,266,000	3,873,000
Net tangible assets (deficiency)	58,000	(127,000)	(69,000)
Purchase consideration	58,000	21,000	79,000
Excess purchase price	Nil	\$148,000	\$148,000

Additional purchase consideration for C.K. Steel & Machinery Ltd. is to be computed annually as a percentage of its net equity, payable in varying instalments from 1979 to 1982 at the option of the vendor. Any additional purchase consideration up to an amount of \$386,000 will be allocated to tangible assets, and any excess will be carried as an intangible asset.

The total amount of \$5,553,000 accumulated to date as an intangible asset, is being amortized over a twenty year period. As a result of continuing losses of a subsidiary company, the unamortized excess purchase price of \$93,000 was written off in 1977 and an additional amount of \$319,000 was included in extraordinary items as a result of the wind-up of another operation.

B) Inventories:

Inventories, including construction contracts in progress, have been consistently valued at the beginning and end of the year at the lower of cost and net realizable value. Cost in the case of products manufactured consists of direct material and labour costs together with the relevant factory overheads. The "completed contract" method of accounting is followed for construction contracts in progress, and accordingly, profits on contracts are only taken when the final stage of completion has been reached, any losses on contracts are provided for as soon as such become apparent.

C) Fixed Assets:

The major categories of fixed assets are as follows:

	1977		1976	
	Cost	Accumulated Depreciation	Net Book Value	Net Book Value
Land	\$ 3,893,000	—	\$ 3,893,000	\$ 5,128,000
Buildings	15,054,000	\$ 5,663,000	9,391,000	9,701,000
Machinery and Equipment	27,554,000	18,256,000	9,298,000	9,885,000
Others	1,706,000	733,000	973,000	1,013,000
	<u>\$48,207,000</u>	<u>\$24,652,000</u>	<u>\$23,555,000</u>	<u>\$25,727,000</u>

Leasehold improvements are amortized over the terms of the related leases. Depreciation of buildings is provided at rates varying from 2½% to 10% and depreciation for machinery and equipment and other assets is provided at rates varying from 5% to 30%.

D) Investments in joint ventures:

These investments in joint ventures, for the purpose of carrying out oil and gas exploration programs, are carried at the lower of cost and present value of estimated future earnings of proven reserves discounted at the rate of fifteen per cent per annum. Earnings, including revenues from the production of oil and gas wells, will only be recognized in the accounts upon full recovery of the original investments.

2. MARKETABLE SECURITIES

Marketable securities are carried at the lower of cost and market.

On July 14th 1977, the Corporation disposed of 375,000 preferred and 24,000 common shares of Power Corporation of Canada, Limited, resulting in a gain of \$1,231,000.

Capital Management Limited, a subsidiary company, and its subsidiary All-Canadian Group Distributors Limited, are defendants in various lawsuits arising out of a management agreement. The trial commenced in October, 1977, however a decision is not expected before the end of 1978. Legal counsel is still of the opinion that such lawsuits are not well-founded. Management and legal counsel are of the opinion that adequate provision has been made in the accounts for the foregoing matters.

11. ANTI-INFLATION LEGISLATION

The Corporation and its subsidiary companies are subject to legislation enacted by the Government of Canada on October 14, 1975 which imposes certain restrictions with respect to prices, profit margins, dividends and compensation.

12. CLASSES OF BUSINESS

The Board of Directors has determined the following classes of business in accordance with Statistics Canada Standard Industrial Classification Code, and the revenue for each class is as follows:

	1977	1976
Manufacturing:		
household furniture	\$23,588,000	\$22,628,000
boiler and plate work	18,624,000	37,198,000
saw mill	4,710,000	4,671,000
other	10,007,000	9,679,000
Wholesale Trades:		
metal and metal products	6,920,000	6,585,000
Services:		
engineering and scientific services	9,877,000	9,593,000
resort and ski centers	7,302,000	7,751,000
Retail Trade — other	10,691,000	153,000
	<u>\$91,719,000</u>	<u>\$98,258,000</u>

13. EARNINGS PER SHARE

Net earnings per common share is based on the average number of shares outstanding during the year after deduction of the preferred dividend.

14. CORPORATE REORGANIZATION

These statements have been prepared immediately after the amalgamation of the Corporation and five of its subsidiary companies, International Bronze Powders Limited, Toronto Iron Works Holdings, Limited, TIW Industries Ltd., Wimco Steel Sales Co. Limited and C.E. Macpherson (1968) Limited, under the provisions of section 175 of the Canada Business Corporations Act. Under the terms of agreement the amalgamated corporations have agreed to continue, effective January 1, 1978, as one Corporation under the name TIW Industries Ltd. Upon amalgamation, the outstanding shares of the subsidiary corporations held by the parent Corporation (formerly Warnock Hersey International Limited) were cancelled and 1,145 series "A" preferred shares and 8,834 common shares of the new Corporation were issued to the minority shareholders of the former subsidiary corporations.

As a result of the amalgamation, shareholders holding 138,984 common shares and 15 preferred shares of the Corporation have demanded payment for their shares under the provision of Article 184-7 of the Canada Business Corporations Act. For the purpose of these financial statements, these shares have been treated as if they had been cancelled on December 31, 1977 and full provision has been made in the accounts for their redemption at a price of \$5.75 per common share and \$16.00 per preferred share for an aggregate value of \$799,000. Two shareholders holding a total of 12,000 shares have not accepted the price of \$5.75 per common share offered by the Corporation.

Auditors' report

TO THE SHAREHOLDERS,
TIW INDUSTRIES LTD.

We have examined the consolidated balance sheet of TIW Industries Ltd. as at December 31, 1977 and the consolidated statements of earnings, retained earnings and changes in financial position for the year then ended. Our examination of the financial statements of TIW Industries Ltd. and those subsidiaries of which we are the auditors was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances. For other companies which have been consolidated, we have relied on the reports of the auditors who have examined their financial statements.

In our opinion, these consolidated financial statements present fairly the financial position of the Company as at December 31, 1977 and the results of its operations and the changes in its financial position for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Campbell, Sharp, Nash & Field
Chartered Accountants

Montréal, February 15, 1978





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Faites-en la demande à l'adresse suivante:
Les Industries TIW Ltée, 150 rue Albert,
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Ou encore, appelez-nous au (613) 238-1888.
Notre beau rapport français vous parviendra . . .
avec toutes nos excuses!